

FISCAL NOTE

HB 2391 - SB 2459

February 16, 2004

SUMMARY OF BILL: Requires all nursing homes with a facility more than one story in height to have a sprinkler system installed by December 31, 2006. All other nursing homes must have a sprinkler system installed by June 30, 2007.

ESTIMATED FISCAL IMPACT:

Increase State Revenues - \$44,500 FY05

Increase State Expenditures - \$125,600 FY08

Other Fiscal Impact - Increase Federal Expenditures - \$293,000 FY08

For Information Purposes - FY08 costs represent TennCare expense for reimbursement of the first year amortization of sprinkler systems over a 25-year period. The total impact to the state is \$10,469,000 (\$3,769,000 state and \$6,700,000 federal)

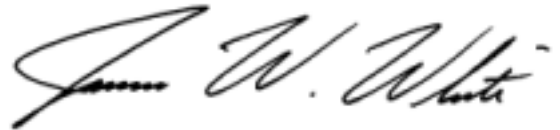
Estimate assumes:

- The Department of Health will receive fee revenue from the review of construction plans in FY05.
- Medicaid reimbursement for nursing homes is based upon audited expenditures from the prior year. Reimbursement for the construction costs required by this bill will begin in FY08 based upon expenditures for FY07.
- The cost of installation of sprinkler systems is dependent on the type and size of the building and the current alarm system. Total cost also depends on the expense of hookup to a local water utility or to build a water storage system when local system pressure is inadequate.
- The bill will affect 83 nursing homes with approximately 2 million square feet of space. Estimated cost of installing a sprinkler system at each facility is approximately \$7 per square foot.

- TennCare reimbursement will pay approximately 72% of all costs representing the share of Medicaid reimbursement in all nursing homes.
- According to the Comptroller of the Treasury, federal Medicaid rules currently require that capital costs be amortized over a 25-year period for sprinkler systems.
- Currently TennCare reimburses nursing homes subject to a maximum rate on facility expenditures. Approximately 50% of all nursing homes are above the cap and do not receive full reimbursement. TennCare will change the state plan to reimburse one hundred percent of the capital costs required by this bill even for facilities above the cap. Such a change is subject to approval by the Center for Medicare and Medicaid Services. Any increase in the cap will increase both state and federal TennCare expenditures.
- If the Center for Medicare and Medicaid Services does not approve these changes to the state plan, then total cost of the reimbursement would be subject to state funding except for expenses currently approved for Federal reimbursement based on 25-year amortization.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, appearing to read "James W. White". The signature is fluid and cursive, with the first name "James" written in a smaller, more compact script than the last name "White".

James W. White, Executive Director